FACTORS AFFECTING GROWTH OF PROFIT AND ITS IMPACT ON THE VALUE OF BANKING FIRMS IN INDONESIA STOCK EXCHANGE 2013-2017

Ahmad Effendy Hutahutu1, Erlina2, Rina Bukit3
1,2,3Universitas Sumatera Utara
fendibaik88@gmail.com

Abstract: This study aims to analyse the factors that affect earnings growth and its impact on the firm value in banking companies listed on the Indonesia Stock Exchange in 2013-2017, namely Capital Adequacy Ratio (CAR), Non-Performing Loans (NPL), Loan to Deposit Ratio (LDR), Operating Expenses on Operating Income (BOPO) and Dept to Equity Ratio (DER) and Profit Growth as intervening variables. This type of research is causal research. The population of this study is all banking companies listed on the Indonesia Stock Exchange in 2013-2017 as many as 43 companies. Sampling was done by nonprobability sampling with a total sample of 35 companies using the technique of purposive sampling. The method of data collection is carried out by downloading through the Indonesia Stock Exchange website www.idx.co.id and the website of the company concerned in the form of financial statements of banking companies in 2013-2017. The data of this study were analysed using the classical assumption test, hypothesis testing and path analysis using SPSS 24 Statistical Package for Social Science (SPSS). The results of this study indicate that simultaneous CAR, NPL, LDR, BOPO, DER and Profit Growth significantly affect Firm Value. Partially BOPO and DER have a negative and significant effect on Firm Value, while CAR and Profit Growth have a positive and not significant effect on Firm Value and NPL has a negative and no significant effect on Firm Value. Profit growth is able to mediate the relationship between NPL, BOPO and DER on the Value of Banking Companies listed on the Indonesia Stock Exchange in 2013-2017.

Keywords: Capital Adequacy Ratio (CAR), Non-Performing Loans (NPL), Loan to Deposit Ratio (LDR), Operational Expenses to Operating Income (BOPO), Dept to Equity Ratio (DER) Earnings Growth, Firm Value

1. INTRODUCTION

The main goal of the company is basically to optimize firm value. The higher the firm value, the more prosperous its shareholders. Firm value itself can be reflected in the price of its shares. Firm value, especially companies going public will be seen in the high and low stock prices (Martikarini, 2014). High stock prices will cause the increasing of the firm value. The increase in stock prices was triggered by the increasingly high investor assessment of these shares. Therefore, if there is an increase in the stock market price, firm value will also increase.

Firm value can basically be measured through several measurements, one of the measures or proxies used is the price book value (PBV) or comparing the market price per share with the book value per share. One of the industries in the capital market that has an effect on economic development is the banking sector.
In the past 4 years, the role of the national banking sector which still dominates the national financial services sector has declined in the Indonesian economy. Credit growth has plummeted since 2014, recorded at 11.6% in 2013 and continued to decline to the lowest point in 2016 which then slightly increased in 2017 at 8.35%. It is unusual for the banking sector because credit growth during the period 2010 - 2013 was above 20%.

Bank Indonesia has significantly reduced its benchmark interest rate by 200 bps throughout 2016 and 2017 which has an impact on lending rates during 2017 by 74 bps, which has not been able to significantly boost credit growth performance so that monetary policy transmission has not been running optimally. Credit growth in 2017 only grew 8.35% below the 2 digit target.

The stagnation of prolonged economic growth not only affects credit growth but also the quality of national bank credit. OJK relaxation through POJK No. 11 / POJK / 03/2015 concerning Prudential Provisions in the Context of National Economic Stimulus for Commercial Banks, such as the determination of collectibility based on 3 pillars, are relaxed into 1 pillar with a single obligor temporarily abolished, and in the 2017 period many Banks did write off and or sell non-performing loans so that the NPL ratio can be reduced lower, but the gross NPL ratio of national banks is still high at 2.49% (2015), 2.93% (2016) and 2.35% (2017 (www.idx.co.id/StaticData/ NewsAndAnnouncement/).

Based on this phenomenon, the banking performance has not been maximized, this can be seen by the high non-performing loans and credit growth that is still below expectations. This will certainly affect the profitability and affect the firm value. One factor that may be the cause is the decline in the level of public confidence in banks. Of course the company will focus more on improving company performance, if the firm value is good, of course the stock price will also be good, and this will affect the attitude of investors to invest. There are many factors that can affect the firm value, but in this study, researchers will analyse the effect of Capital Adequacy Ratio (CAR), Non-Performing Loans (NPL), Loan to Deposit Ratio (LDR), Operational Expenses on Operating Income (BOPO) and Debt to Equity Ratio (DER) to Firm Value. So the formulation of the problem in this study is Does Capital Adequacy Ratio (CAR) affect the Firm Value of Banking Companies listed on the Indonesia Stock Exchange? Does Non Performing Loan (NPL) affect the firm value of banking companies listed on the Indonesia Stock Exchange? Does the Loan to Deposit Ratio (LDR) affect the value of banking companies listed on the Indonesia Stock Exchange? Does the Operating Expense on Operating Income (BOPO) affect the Firm Value of Banking Companies listed on the Indonesia Stock Exchange? Does Debt to Equity Ratio (DER) affect the firm value of banking companies listed on the Indonesia Stock Exchange? Does profit growth affect the firm value of banking companies listed on the Indonesia Stock Exchange? Does the Capital Adequacy Ratio (CAR) affect the firm value of banking companies listed on the Indonesia Stock Exchange with earnings growth as an intervening variable? Does Non Performing Loan (NPL) affect the firm value of banking companies listed on the Indonesia Stock Exchange with profit growth as an intervening variable? Does the Loan to Deposit Ratio (LDR) affect the firm value of banking companies listed on the Indonesia Stock Exchange with profit growth as an intervening variable?
growth as an intervening variable? Does the Operating Expense of Operating Income (BOPO) affect the Firm Value of Banking Companies listed on the Indonesia Stock Exchange with profit growth as an intervening variable? Does Debt to Equity Ratio (DER) affect the firm value of banking companies listed on the Indonesia Stock Exchange with profit growth as an intervening variable?

2. METHOD

This research is an associative research that is research that aims to determine the effect or also the relationship between two or more variables. This type of research used in this study is quantitative. This approach is a research method in the form of numbers and analysis using statistics in order to test the hypothesis that has been set. The population in this study are all banking companies that have gone public and are listed on the Indonesia Stock Exchange (IDX) from 2013 to 2017 obtained through the website www.idx.co.id. The total population of all banking companies listed on the Stock Exchange until 2017 is 43 companies. The sampling method used is nonprobability sampling. Nonprobability sampling is a technique used for sampling that does not provide the same opportunity or opportunity for each member of the population or each element to be selected as a sample. And the technique used is purposive sampling is a sample determination technique with certain considerations. Based on these criteria, 35 sample companies were chosen. Data analysis methods in this study are descriptive statistics, classic assumption tests, hypothesis testing, path analysis for intervening variables using the help of Statistical Package for Social Science (SPSS) 24.

2.1 Operational Variables

1. Dependent Variable (Y): Firm value is the investor’s perception of the company, which is often associated with stock prices. High stock prices will increase the firm value. Firm value will be measured using the Price to Book Value (PBV) Ratio.

2. Independent Variable (X): Capital Adequacy Ratio (CAR) is a ratio that shows how far all bank assets that contain risks (credit, securities, bills at other banks) are financed from the bank's own capital funds, Non-Performing Loans (NPLs) is a comparison between non-performing loans to total loans, Loan to Deposit Ratio (LDR), which is a comparison between total loans and third-party funds, Operating Expenses to Operating Income (BOPO) is a comparison between total operating expenses to operating income, Debt to Equity Ratio (DER) is the ratio used to assess debt to equity.

3. Moderating Variable (Z): Earnings growth is an increase in economic benefits during an accounting period in the form of income or increase in assets or decrease in liability. Earnings growth is used to compare earnings between the current period compared to the previous period to see whether there is growth or vice versa.
2.2 Data Analysis Method

Data analysis methods in this study are descriptive statistics, classic assumption tests, hypothesis testing, path analysis for intervening variables using the help of Statistical Package for Social Science (SPSS) 24.

3. RESULT AND DISCUSSIONS

3.1 Result

Classic assumption test
The classic assumption test is performed to obtain a regression model that shows a significant and representative relationship in a statistical sense is BLUE (Best Linear Unlimited Estimations).

Normality test
The normality test aims to test whether in the regression model, the residual variable has a normal distribution. Using the Kolmogorov-Smirnov test and the P-P plot graph shows that the data has been normally distributed.

Multicollinearity Test
Multicollinearity test aims to test the correlation between independent variables. By looking at the value of Variance Inflation Factor (VIF) and tolerance, in the regression model there is no multicollinearity.

Autocorrelation Test
Autocorrelation test is performed to find out whether in the regression model there is a correlation between the error of the intruder in the t period with the previous period, the test is performed with the Durbin Watson Test and the results do not occur autocorrelation.

Heteroscedasticity Test
Heteroscedasticity test is performed to find out whether there is an inequality of variance from the residuals of one observation to another in the regression model, using the Scatter Plot graph in the regression model does not occur heteroscedasticity or H0 is accepted.

Simultaneous Significance Test (F Test)
Significance test of simultaneous effect is a test to test whether all independent variables and mediating variables simultaneously or simultaneously affect the dependent variable. The results of simultaneous testing (F test) showed that the calculated F value 2.832> F table 2.06 and the value of Sig 0,012 <0.05, then concluded the Capital Adequacy Ratio (X1), Non Performing Loans (X2), Loan to Deposit Ratio (X3), Operating Expenses on Operating Income (X4), Debt to Equity Ratio (X5) and Profit Growth (Z) have a significant effect on Firm Value (Y).

Partial Significance Test (t Test)
T test is used to determine the effect of partially independent variables on the dependent variable. The results of the regression analysis based on the t test are as follows:
**Significance Test of Partial Effect of Substructure Equation I**

\[ Y = 2.013 + 0.005X_1 - 0.070X_2 - 0.003X_3 + 0.005X_4 - 0.231X_5 + 0.029Z \]

The coefficient value of the Capital Adequacy Ratio variable is 0.005 which is positive and the regression coefficient value of the Profit Growth variable is 0.029 which is positive. This result states that the Capital Adequacy Ratio and Earnings Growth have a positive effect on the Firm Value. While the coefficient value of the Non-Performing Loan variable is -0.070 which is negative, the coefficient value of the Loan to Deposit Ratio variable is -0.003 which is negative, the coefficient value of the Operating Expense variable on Operating Income is -0.005 which is negative, the coefficient value of the Debt variable to Equity Ratio is -0.231 which is negative. These results state that the Non-Performing Loan, Loan to Deposit Ratio, Operating Expenses on Operating Income and Debt to Equity Ratio have a negative effect on Firm Value.

Capital Adequacy Ratio, Loan to Deposit Ratio, Non-Performing Loans and Profit Growth have a Sig value greater than the significance level of 0.05, thus it can be concluded that the Capital Adequacy Ratio, Loan to Deposit Ratio, Non-Performing Loans and Profit Growth have no significant effect towards Firm Value. While the Operating Expenses of Operating Income and Debt to Equity Ratio have a Sig value that is smaller than the 0.05 significance level of 0.045 and 0.031 so that it can be concluded that, Operational Expenses on Operating Income and Debt to Equity Ratio have a significant effect on Firm Value.

**Significance Test of Partial Effect of Substructure Equation II**

\[ Z = -0.076 + 0.004X_1 + 0.019X_2 + 0.000X_3 - 0.002X_4 - 0.107X_5 \]

The coefficient value of the Capital Adequacy Ratio is 0.004 which is positive, the coefficient value of the Non-Performing Loan variable is 0.019 which is positive and the coefficient of the Loan to Deposit Ratio is 0.000 which is positive. These results state that the Capital Adequacy Ratio, Non-Performing Loans and Loan to Deposit Ratio have a positive effect on Profit Growth. While the coefficient value of the Operating Expense variable on Operating Income is -0.002 is negative and the coefficient value of the variable Debt to Equity Ratio is -0.107 is negative. This result states that the Operating Expense variable towards Operating Income and Debt to Equity Ratio has a negative effect on Profit Growth. Capital Adequacy Ratio, Non-Performing Loans, Loan to Deposit Ratio and Operating Expenses to Operating Income have a sig value greater than the significance level of 0.05, so it can be concluded that the Capital Adequacy Ratio, Loan to Deposit Ratio, Non-Performing Loans and Expenses Operational to Operating Income does not have a significant effect on Profit Growth. While Debt to Equity Ratio has a sig value that is smaller than the significance level of 0.05 which is 0.018, so it can be concluded that Debt to Equity Ratio has a significant effect on Profit Growth.
Test for Indirect Effects (Path Analysis)

<table>
<thead>
<tr>
<th>Direct Effect</th>
<th>Direct Effect Value</th>
<th>Indirect Effect</th>
<th>Indirect Effect Total Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Z → Y</td>
<td>0.012</td>
<td></td>
<td></td>
</tr>
<tr>
<td>X1 → Z</td>
<td>0.078</td>
<td>0.078x0.012 = -0.000936</td>
<td>-0.000936+0.042 = 0.0410</td>
</tr>
<tr>
<td>X1 → Y</td>
<td>0.042</td>
<td></td>
<td>(not significant)</td>
</tr>
<tr>
<td>X2 → Z</td>
<td>0.097</td>
<td>0.097x0.012 = -0.001164</td>
<td>-0.001164-0.147 = -0.1481</td>
</tr>
<tr>
<td>X2 → Y</td>
<td>-0.147</td>
<td></td>
<td>(significant)</td>
</tr>
<tr>
<td>X3 → Z</td>
<td>0.007</td>
<td>0.007x0.012 = 0.000084</td>
<td>0.000084-0.043 = -0.0429</td>
</tr>
<tr>
<td>X3 → Y</td>
<td>-0.043</td>
<td></td>
<td>(not significant)</td>
</tr>
<tr>
<td>X4 → Z</td>
<td>-0.131</td>
<td>-0.131x0.012 = -0.001572</td>
<td>-0.001572-0.171 = -0.1725</td>
</tr>
<tr>
<td>X4 → Y</td>
<td>-0.171</td>
<td></td>
<td>(significant)</td>
</tr>
<tr>
<td>X5 → Z</td>
<td>-0.200</td>
<td>-0.200x0.012 = -0.0024</td>
<td>-0.0024-0.182 = -0.1844</td>
</tr>
<tr>
<td>X5 → Y</td>
<td>-0.182</td>
<td></td>
<td>(significant)</td>
</tr>
</tbody>
</table>

The indirect effect of Capital Adequacy Ratio on Firm Value through Profit Growth of 0.0410 is smaller than the direct effect of X1 on Y, which is 0.042 and the indirect effect of Loan to Deposit Ratio on Firm Value through Profit Growth of -0.0429 is smaller than the direct effect of X3 on Y is 0.043, so it can be concluded that the Capital Adequacy Ratio and Loan to Deposit Ratio have no effect on Firm Value through Profit Growth. Based on the table above it is also known that the indirect effect of Non-Performing Loans on Firm Value through Profit Growth of -0.1481 is greater than the direct effect of X2 on Y, which is -0.147, the indirect effect of Operational Expenses on Operating Revenues of Firm Value through Profit Growth of -0.1725 is greater than the direct effect of X4 on Y, which is 0.171 and the indirect effect of Debt to Equity Ratio on Firm Value through Profit Growth of 0.1844 is greater than the direct effect of X5 on Y, which is 0.182, so it can be concluded that Non-Performing Loans, Operating Expenses on Operating Income and Debt to Equity Ratio affect the Firm Value through Profit Growth

Coefficient of Determination

The coefficient of determination of R Square is 0.116. This value can be interpreted as the variable Capital Adequacy Ratio, Non-Performing Loans, Loan to Deposit Ratio, Operating Expenses to Operating Income and Debt to Equity Ratio and Profit Growth affecting the Firm Value by 11.6%, the remaining 88.4% (100% - 11.6%) affected by other factors.

3.2 Discussion

Effect of Capital Adequacy Ratio (CAR) on Firm Value

Based on the results of the study, it can be concluded that the Capital Adequacy Ratio (CAR) has a regression coefficient of 0.005 and is positive. This
means that the Capital Adequacy Ratio has a positive effect on Firm Value. It is known that the Sig value is 0.624, which is greater than a significance level of 0.05, then the Capital Adequacy Ratio has no significant effect on the Firm Value. so H1 is accepted. Capital Adequacy Ratio (CAR) has a positive effect on Firm Value. This is consistent with the signalling theory which states that if CAR is high, the public and investors will believe in the ability of bank capital, and funds absorbed from the community increase which will ultimately increase the firm value.

**Effect of Non Performing Loans (NPL) on Firm Value**

From the results of the study note the regression coefficient value of the Non-Performing Loan variable is -0.070 which is negative. This means that Non-Performing Loans negatively affect Firm Value. It is known that the Sig value is 0.097, which is greater than a significance level of 0.05, thus the Non-Performing Loan has no significant effect on the Firm Value, so H2 is accepted, namely the Performing Loan (NPL), which has a negative effect on the Firm Value. This result is in accordance with the theory which states that the higher the NPL ratio, the worse the quality of bank credit that causes the number of problem loans is greater, the possibility of a bank in a greater problematic condition and allows the achievement of profit decline and also affect the firm value.

**Effect of Loan to Deposit Ratio (LDR) on Firm Value**

From the results of the study note the regression coefficient value of the variable Loan to Deposit Ratio is -0.003 which is negative. This means that the Loan to Deposit Ratio has a negative effect on Firm Value. It is known that the Sig value is 0.612, which is > 0.05, so the Loan to Deposit Ratio has no significant effect on the firm value, so H3 is rejected. The analysis shows that the LDR is a variable that has a negative and not significant effect on the firm value of banking companies, meaning that a high LDR ratio will cause a decrease in firm value. Loan to Deposit ratio is the ratio between total loans to third party funds.

**Operating Expenses on Operating Income (BOPO) on Firm Value**

From the results of the study note the regression coefficient value of the variable Operational Expense to Operating Income is -0.005 which is negative. This means that Operating Expenses against Operating Income negatively affect Firm Value. It is known that the Sig value is 0.045, which is < a significance level of 0.05, so that Operating Expenses on Operating Income have a significant effect on Firm Value, so H4 is received, Operational Expenses on Operating Revenues (BOPO) have a negative and significant effect on Firm Value. The lower the value of Operating Expenses to Operating Income, the better the bank is in maximizing the return on expenses incurred, so that in the end it will increase bank profits which will have an impact on the increase in firm value.

**Effect of Debt to Equity Ratio (DER) on Firm Value**

From the results of the study note the regression coefficient value of the variable Debt to Equity Ratio is -0.231 which is negative. This means that Debt to Equity Ratio has a negative effect on Firm Value. It is known that the Sig value is
0.031 which is < significance level of 0.05 Debt to Equity Ratio has a significant effect on Firm Value, so H5 is accepted, namely Debt to Equity Ratio (DER) has a negative effect on Firm Value. The results of this study indicate that companies with large debts have high risk in returning the cost of debt, it affects the interest of investors in investing funds into the company, decreasing investor interest will cause the firm value in the future.

**Effect of Profit Growth on Firm Value**

From the results of the study note the regression coefficient value of the Profit Growth variable is 0.029 which is positive. This means that profit growth has a positive effect on firm value. It is known that the Sig value is 0.882, which is > the 0.05 significance level, so Profit Growth has no significant effect on Firm Value. This does not indicate that there is a direct effect on Profit Growth on Firm Value, so H6 is accepted, ie Profit Growth has a positive effect on Firm Value. The high profit shows the higher profitability of the company. But in this research, it was found that Profit Growth did not significantly affect firm value, this was due to earnings growth determined by the operating activities carried out by the company, the variability of the company's operating activities so that it would affect the company's operating profit, because operating conditions would reflect business risk faced by investors, and this risk is unsystematic (risks that can be avoided by investors by diversifying).

**Effect of Capital Adequacy Ratio (CAR) on Firm Value through Profit Growth**

Based on the results of hypothesis testing it is concluded that the indirect effect of Capital Adequacy Ratio on Firm Value through Profit Growth of 0.0410 is smaller than the direct effect of X1 on Y which is 0.042, then this states that X1 indirectly has no significant effect on Y, meaning that high CAR ratio does not affect the value of the company through profit growth and also does not affect firm value. Thus, H7 is thus rejected, because the Capital Adequacy Ratio (CAR) has no effect on Firm Value through Profit Growth.

**The Effect of Non-Performing Loans (NPL) on Firm Value through Profit Growth**

Based on the results of hypothesis testing it is concluded that the indirect effect of Non-Performing Loans on Firm Value through Profit Growth of -0.1481 is greater than the direct effect of X2 on Y, which is -0.147, it is significant. Thus, H8 is accepted, this states that X2 indirectly has a significant effect on Y through Z. This means that the smaller the Non-Performing Loan Ratio is able to show an increase in profit growth which also has no effect with increasing firm value. The higher NPLs result in higher loan interest arrears which have the potential to reduce income. The increase in NPLs also occurred because the handling of non-performing loans by banks placed more importance on the legal aspects of credit than the business aspect, so that the handling was less concrete and substantial, and in the end only triggered the accumulation of problem loans in banks.
Effect of Loan to Deposit Ratio (LDR) on Firm Value through Profit Growth

Based on the results of hypothesis testing it is concluded that the indirect effect of the Loan to Deposit Ratio on Firm Value through Profit Growth of -0.0429 is smaller than the direct influence of X3 on Y which is -0.043 then it is not significant. Thus, H9 is rejected, this states that X3 indirectly has no significant effect on Y.

Operating Expenses on Operating Income (BOPO) on Firm Value through Profit Growth

Based on the results of hypothesis testing it is concluded that the indirect effect of Operating Expenses on Operating Income (BOPO) on Firm Value through Profit Growth of -0.1725 is greater than the direct effect of X4 on Y, which is -0.171, it is significant. Thus H10 is accepted, it states that the Operating Expense on Operating Income (BOPO) affects the Firm Value through Profit Growth. Large operating costs will reduce the amount of net income that can be obtained because operating costs are a deduction factor in the income statement.

Debt to Equity Ratio (DER) to Firm Value through Profit Growth

Based on the results of hypothesis testing it is concluded that the indirect effect of Debt to Equity Ratio on Firm Value through Profit Growth of -0.1844 is greater than the direct effect of X5 on Y, which is -0.182, it is significant, so H11 is accepted. this states that X5 indirectly has a significant effect on Y. This states that the Debt to Equity Ratio has an effect on Firm Value through Profit Growth. It can be interpreted that the addition of debt carried out by the company to expand the business will increase the stock price of the company, so that Firm Value (PBV) of the sample increases significantly. It can be interpreted that the addition of debt by a company to expand a business can affect the stock price of the company, so that the Firm Value (PBV).

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